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How

Why How We Do Anything Means Everything...in Business (and in Life)

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This was by no means the first time a confluence of events had rocked the three legs of the stool. World War II, the Vietnam era, Watergate, and the Mideast conflict and oil crisis of the 1970s, to name a few from just the previous half-century, all brought similar disruption and instability. Boom times, tough times, corruption, and fraud were by no means new to us, but the deeply dislocating difference this time around lay in our startling new ability to see it all in real time. Much of what happens around the world is now present in our daily lives. This flood of undigested and unprocessed information bombards us minute by minute, giving us little time to regain our footing. When our stools wobble, the Certainty Gap grows, and when that happens, we reach out for reassurance, for things that can stabilize us and give us confidence to go on. We look for something to fill the gap.

THE LIMITATIONS OF RULES

To pursue our endeavors and achieve our desired success, we need certainty, consistency, and predictability, a hard floor from which to take a leap. Basketball players can jump higher than beach volleyball players can because they play on a hard wooden floor. It is much more difficult to leap high with the sand shifting beneath your feet. The Certainty Gap describes not only our internal relationship to sureness, but also our relationship to the societies in which we live. In democratic societies, we look to rules—in the form of laws—to provide the certainty, consistency, and predictability we require. In the days of fortress capitalism, we got very good at writing rules, but as the century came to a close, we began to sense that rules were letting us down.

There are good reasons for this. For one, the way we write rules often makes them inefficient when governing human conduct. Rules, of course, don't come out of thin air. Legislatures and organizations adopt them usually to proscribe unwanted behaviors but typically in reaction to events. They lower speed limits after automobile accidents become too frequent, regulate pit bulls after a series of dog bites, or institute new expense-tracking procedures after someone is caught trying to get reimbursed for their new iPod. Rules have been established for a reason, but most people are out of touch with the rationale and spirit of why. They don't read legislative histories and so have a thin, superficial relationship to the rules. This, given the proper set of circumstances, leads people to explore ways around them, to find loopholes. Steve Adams, for instance, is an Alaskan postal clerk who wanted to express his individuality by showing up for work wearing ties decorated with the Three Stooges and Looney Tunes characters. That didn't sit well with his bosses, who fought with him for months before finally ordering him to follow the rules specifying permissible neckwear. So he did. Then, he examined the rules thoroughly and discovered that they contained no special prohibitions about suspenders. Now he proudly wears suspenders with "Taz," the Tasmanian Devil, on them.[6] Rules fail because you cannot write a rule to contain every possible behavior in the vast spectrum of human conduct. There will always be gray areas, and therefore, given the right circumstances, opportunities, or outside pressures, some people might be motivated to circumvent them. When they do, our typical response is to just make more. Rules, then, become part of the problem.

Rules react and correlate to vulnerabilities and infirmities. Companies don't have rules to tell employees that they must remember at all times to breathe; the company suffers no vulnerability to breathing; people just naturally do it. Companies *do* have rules that tell people when to come to work, because absent those rules, people would come to work whenever they felt like it and it would be harder to get things done. Rules achieve good floors, minimum standards of behavior, and they prevent bad things from happening—if people follow them. But people transgress, so we write rules to prevent further transgression, yet because rules are inherently limited, people find a way to transgress again. People who feel overregulated in turn feel distrusted. They lose fealty to the rules (and those who make them) and search for ways to avoid their yoke, like Steve Adams did. This creates a downward spiral of rule making which causes lasting detriment to the trust we need to sustain society. With each successive failure of rules, our faith in the very ability of rules to govern human conduct decreases. Rules, the principal arm of the way we govern ourselves, lose their power, destroying our trust in both those who make them and the institutions that they govern.

There is something in the nature of rules and laws that reduces their effectiveness in certain realms of human behavior. How do you legislate fairness? What enforceable language can we use to enshrine into law a powerful value like that? You can (and we do) write long lists proscribing a number of behaviors you think are unfair, but it is impossible to write them all without creating hopeless contradictions, inequities, and loopholes. In business, for example, how do you write a contract that obligates you to *delight* a customer? To exceed expectations, or even surprise customers? You can't. You can set minimum deliverables, optimum schedules, and basic compensation, but you can't construct language that will mandate that extra measure of performance that builds long-term, successful relationships. By setting floors of behavior, rules unintentionally also set ceilings.

When we lived in a Just Do It world, we did not care how you got things done if you generally played by the rules. As long as you did not drop beneath the floor set by rules, we let it slide. Society was content to judge people by their ability to make the numbers—in other words, by *WHAT* they did, not *HOW* they did it. As the world became more transparent, however, we began to distinguish compliance from behavior; or, to put it another way, because everyone could see your methods, HOW you did something became as important as WHAT you did. It was suddenly insufficient just to *follow* the rules, because we could now see and understand people's *relationships* to rules. In a hyperconnected and hypertransparent world, you can no longer Just Do It; you must Just Do It Right.

OUTBEHAVING THE COMPETITION

No matter how the world changes or the Certainty Gap grows or shrinks, there are certain traits in us that do not change: We all like to be unique, we like to be valued, we like to be complimented, and we like to achieve things, for ourselves, our families, our communities, and our society. We still must find a way to achieve our goals and desires, to leap as high as we can. Business, as an expression of human aspiration and achievement, mirrors these same goals. It is about being great, about achieving something, and sometimes even about changing the world. Gallup polls in fact show that people's happiness at work is integrally tied not to their wages, but to recognition, praise, and the opportunity to do what they do best every day.[7] And if you look at the companies that make up *Fortune*'s 100 Best Places to Work, almost every one of them distinguishes itself in its employees' eyes by the value of its endeavor.

As the world becomes ever more connected, however, the challenges to success grow. A bachelor's degree from a good college was all you used to need to secure a career. Now, Starbucks employs baristas with master's degrees and PhDs. Engineers used to be in great demand, but with universities in India and China turning them out in droves, an engineering degree is no longer a guaranteed ticket to success.[8] As a company, proximity to your customers used to provide a competitive advantage, allowing you to deliver goods or services more cheaply than competitors that were more remote. Now, you find yourself competing against suppliers from around the world, and the equation is often reversed. To succeed in a crowded, global market of companies and people, we must find a way to differentiate ourselves from the competition in an enduring fashion. As the market becomes more crowded, however, the possible areas of differentiation become fewer, creating new questions about the personal qualities the new world requires of us in order to thrive.

Leaders in twentieth-century capitalist enterprises historically differentiated themselves by WHAT they did. We used to be very *inventive*; those who could invent something and patent it won, and those who could not do so gleaned the fields for survival. I call it Innovating in WHAT. The market provided great incentives and protections to Innovate in WHAT. That is where the spoils went, that is where the publicity went, that is where government protection was focused, and those inventors made the front cover of *Forbes* and *Fortune* magazines. We used to celebrate them, the people who made the best WHATS—like Chester F. Carlson, who in the late 1930s was puttering around in an improvised lab he had set up in the back of an Astoria, New York, beauty salon owned by his mother-in-law when he got some fungus spores to transfer from an electrostatically charged sheet of metal to a piece of wax paper. After patenting the process, he tried to sell it to 20 of the largest corporations in the country. They all turned him down. In 1947, a little photographic products manufacturing company in Rochester, New York, called Haloid bet a quarter of its yearly profit (profit of $101,000 on $6.7 million in revenue) on developing the idea. In 1959, Haloid introduced the first practical application of Carlson's invention, which Haloid called the Xerox 914. Two years later, revenue topped $60 million. Four years after that, Xerox was a half-billion-dollar corporation.[9]

Or people like Noah and Joseph McVicker, who in 1956 invented a pliable plastic composition they hoped would clean wallpaper. When their sister, who taught preschoolers, seized on the stuff to replace the modeling clay her students found too difficult to play with, they formed the Rainbow Crafts Company to manufacture the stuff as a toy. To date, Hasbro, the corporation that eventually bought out Rainbow Crafts, has sold more than two billion cans of Play-Doh. Its odor has been named one of the top five most identifiable smells in the world, and it is one of the most successful toy products of all time.[10]

Innovating in WHAT powered twentieth-century capitalism, but those days are gone. If the McVickers came up with Play-Doh today, someone could take it to China, reverse engineer it in a week, and deliver it around the world at a fraction of the price. A Xerox machine might suffer a similar fate in just a few months. It is difficult to invent a better product in a world of commodities, and that is where we find ourselves. Starbucks unleashes a newfound appreciation for coffee drinks, and now every diner and greasy spoon serves caffe lattes. Dell makes an inexpensive personal computer, and Hewlett-Packard is soon doing likewise. Johnson & Johnson finds a way to protect the integrity of Tylenol, and nearly instantly every analgesic bottle has the same antitampering device.[11]

It is harder now to Innovate in WHAT. It takes a lot of luck and money to be a pioneer, and even if you pull it off, the ability for someone to reverse engineer you in six months and not in six years eliminates a lot of the incentive for doing so. In 1999, two companies, ReplayTV and TiVo, simultaneously rolled out the first consumer versions of the digital video recorder (DVR), an invention that so completely revolutionized the television-watching experience that it held the power to fundamentally undermine the business model of the entire broadcasting industry. Seven years later, ReplayTV is gone and TiVo still struggles to be profitable with a medium-sized share of a small market. The DVR has become a generic commodity, made by any number of companies worldwide, and TiVo struggles to redefine itself as less about its hardware (its WHAT) and more about the experience its software delivers (HOW you use it).[12]

Many companies have no desire to Innovate in WHAT; it is simply too expensive. They say, "I'll wait until *he* invents it and I'll copy him." Jack Welch, former CEO of General Electric (GE), was fond of pointing out that the game is not structured to reward the innovator.[13] It is very hard to build path protection for your WHATS. Many throughout the world regularly infringe on copyrights, and numerous countries pay no attention to property rights or the concept of intellectual property. In many cultures, there is no word that translates as "intellectual property"; they cannot address the concept that someone can own an idea. Welch was so convinced of his idea that it is pointless to try to protect WHATS that he would continually disclose many details of GE's business model and strategies in the company's annual report—essentially making public GE's WHATS. "We went to Jack and asked him why he was giving away the secret sauce by revealing our business models," my friend Steve Kerr, GE's former chief learning officer (CLO) and vice president of leadership development, told me over lunch on Wall Street near Goldman Sachs' headquarters. Steve is also the former CLO of Goldman Sachs and a co-author of *The GE Work-Out* (McGraw-Hill, 2002), a leadership approach he developed as head of GE's famed leadership development center at Crotonville, New York. He has long been recognized as a thought leader in the world of corporate management. Steve recalled about Jack Welch, "He told us, 'There's no secret to the *what*; the secret is in *how*. They can know our model, but they cannot do it. They can't copy our *how*s.' "[14]

Welch was right. Beginning in the 1980s, American businesses began to Innovate in HOW. They focused intensely on process management, which I call the HOWS of WHAT. We now live in a time where winning is about HOW generally. Total Quality Management (TQM), six sigma, just-in-time (JIT) inventory, *kaizen*, Enterprise Resource Planning (ERP), customer relationship management (CRM), human resources information system (HRIS), process reengineering, zero defects, supply chain management, customer service, safety management, BPO—process culture now dominates business practice, aiming to improve profitability by reducing inefficiencies at every stage of the product development process. Business recognizes what Welch saw so clearly: There is going to be one genius in a crowd of 100 who is so smart that she invents a cure for cancer; the other 99 people are going to win on HOW. The journey is as important to profitability as the goal, and process is the Way.

But a funny thing happened on the way to the Way. Everyone got pretty good at it. As companies reached the limits of process improvement, they leveled the playing field. Almost everyone now can reduce quality defects to infinitesimal levels, almost no one gets killed on the job when it can be prevented, everyone answers the phone on the second ring, we all have the same antitampering devices, and we are all drinking caffe lattes. We have commoditized process and performance in the same way we have so much else, possibly to the point of diminishing returns. (Wharton professor Mary J. Benner argues persuasively that the results of her 20-year study show that process management, which has risen to the level of fad, might even be strangling innovation. Benner argues that it encourages short-term, exploitive thinking that stifles bold invention.[15])

There is one area where tremendous variability still exists, however, one place that we have not yet analyzed and commoditized, and which, in fact, *cannot* be commoditized: the realm of human behavior—HOW we do WHAT we do. Think about it. Behavior you can control. If you reach out and inspire more people throughout your global network, you win. If you collaborate more intensely with your coworkers, you win. If you keep promises 99 percent of the time and your competitor keeps promises only 8 out of 10 times, you deliver a better customer experience, and you win. When it comes to human conduct there is tremendous variation, and where a broad spectrum of variation exists, opportunity exists. The tapestry of human behavior is so varied, so rich, and so global that it presents a rare opportunity, *the opportunity to outbehave the competition.*

Look at the kinds of business behaviors we have seen in the past few years. Who could conceive that the founder of the job-search web site Monster would embellish his own resume? That the former executives at Tyco would turn a publicly traded corporation into their personal piggybank to pay for, among other things, an ice-sculpture cherub spouting vodka from his private parts?[16] On the other side of the coin, look at Angel Zamora, the UPS driver I met who went the extra yard to deliver not only an important package, but also a great experience. Or the pilots of Southwest Airlines. I recently flew to Phoenix to visit a client and I noticed that when it was time to board the plane, the pilot appeared at the gate to help the ground personnel take tickets. Later, as I was exiting the aircraft after we landed, the co-pilot appeared on the ramp carrying a stroller for a mother and her child deplaning ahead of me. How extraordinary, I thought. It certainly isn't in the job description of the pilot to help board the plane. And I can't imagine the Southwest Pilots Association union rep negotiating a clause requiring the co-pilot to carry strollers. There is no rule that says, "To stay employed here you must help board the plane and hand out baby strollers." It seemed as though there was something bigger than a job description or a rule guiding those Southwest employees.

Of course, you still need great products and great business models. You still cannot succeed, thrive, or become number one without having good WHATS. But those WHATS used to be enough to excel; now you need them just to stay in the game. To thrive, you need something more. "Anything times zero is zero," said Steve Kerr. "If you do something useless in a really elegant way, it is no more profitable than if you do something important in an inefficient way. The reason to emphasize the HOWS *now* is that they are the underattended part of the equation. They can take you to a different place." It is not that HOW is necessarily more important than WHAT, Steve was telling me; it is that we live in an A-times-B world, and HOW is the X-factor. The greater your command of HOW, the greater are the results of your efforts.[17]

The world today, powered by vast networks of information, connects us and reveals us in ways we have only just begun to comprehend. Through it all, one thing has become crystal clear: It is no longer WHAT you do that makes a difference; it is HOW you do it. Not every team gets to win. Not every employee becomes an executive. Many do not even get to survive. Some last, some end, some outperform others.

The emerging trend among leading-edge businesses today involves delivering not so much a better product, but a better experience to their customers. The opportunity to differentiate by outbehaving the competition is the central raison d'etre for both this book and my life's work. This concept, applied broadly to company/customer/supplier relationships and worker/boss/team relationships, is what I mean what I talk about innovating and winning through HOW.

HOW WE GO FORWARD

Human behavior always mattered in the way we conducted our affairs and pursued personal fulfillment but, unquestionably, it now matters in a new way. In 2005, Merriam-Webster reported that the number-one most looked-up word on its world-renowned dictionary web site was *integrity*.[18] Our new networks of connection allow enormous innovation, but only for those who understand how to send current through these networks and how to make Waves with other people. Frameworks change; paradigms shift. Business, like life, often seems to exist in a bowl full of splinters; movement in one place has a profound effect on dozens of others. Sometimes, tectonic forces bring about new alignments in the world. Sometimes, it is just our ability to see familiar things in a different way that reveals a new world order lurking not far beneath the surface of the one we thought we knew so well. If the world has changed, how we conduct ourselves within it must change, too.

In this part of the book, we have explored the conspiracy of forces that define the parameters of a new framework, a new reality for twenty-first-century business. We've looked at the shift from land to capital to information and the old habits like hoarding, dividing and conquering, and command-and-control that have clung to us despite profound change; the trend in business toward horizontal connections that puts us into increasing contact with those of relatively equal stature working in teams around the globe, the ways in which we have been jammed together across time and cultures faster than we have developed frameworks to understand and operate productively with one another, and how information and communications technology trespasses upon and alters how we fill the spaces between us.